

**WESTERN UPPER PENINSULA
DISTRICT HEALTH DEPARTMENT**

**COMPONENT UNIT FINANCIAL
STATEMENTS
For the Year Ended September 30, 2004**

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Western Upper Peninsula District Health		Department Haughton
Audit Date 9/30/04	Opinion Date 1/14/05	Date Accountant Report Submitted to State: 3/2/05		

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ yes ☐ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) Anderson, Tackman & Co, PLLC			
Street Address 102 W. Washington St. Suite 109	City Marquette	State MI	ZIP 49855
Accountant Signature Michael A. [Signature], CPA			

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ANDERSON, TACKMAN & COMPANY, P.L.C.

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INDEPENDENT AUDITORS' REPORT

Board of Health
Western Upper Peninsula District
Health Department
Hancock, Michigan 49930

We have audited the accompanying financial statements of the governmental activities of the Western Upper Peninsula District Health Department a component unit of the County of Houghton, Michigan, as of and for the year ended September 30, 2004, which collectively comprise the Health Department's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Health Department's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the provisions of the Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit, and the report of the other auditors, provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities of the Western Upper Peninsula District Health Department as of September 30, 2004, and the respective changes in financial position and cash flows, where applicable, there of for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis, budgetary comparison information, schedule of expenditures by reporting unit and the schedule of departmental expenditures are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Board of Health
Western Upper Peninsula District
Health Department
Hancock, Michigan 49930

In accordance with *Government Auditing Standards*, we have also issued a separate report to management dated January 14, 2005 on our consideration of the Western Upper Peninsula District Health Department's internal control over financial reporting and our tests of its compliance with certain provision of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Western Upper Peninsula District Health Department's basic financial statements. The schedules listed as additional information in the accompanying table of contents are presented for the purposes of additional analysis and are not a required part of the basic financial statements of the Western Upper Peninsula District Health Department. Such information have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Anderson, Tackman & Company, PLLC
Certified Public Accountants

January 14, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Our discussion and analysis of the Health Department's financial performance provides an overview of the Health Department's financial activities for the year ended September 30, 2004. Please read it in conjunction with the financial statements, which begin on page 10.

FINANCIAL HIGHLIGHTS

- Net assets for the Health Department as a whole increased by \$58,292 as a result of this year's operations.
- The general fund reported an increase in fund balance of \$28,684. This is \$124,314 higher than the forecasted decrease of \$95,630.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities (on pages 10 and 11) provide information about the activities of the Health Department as a whole and present a longer-term view of the Health Department's finances. Expenditure schedules for each Health Department Program start on page 23. These statements report the Health Department's operations in more detail than the Agency-wide statements showing expenditures for each program by main expense category.

Reporting the Health Department as a Whole

Our analysis of the Health Department as a whole begins on page 6. One of the most important questions asked about the Health Department's finances is "Is the Health Department as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the Health Department as a whole and about its activities in a way that helps answer this question. These statements include *all* assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. These two statements report the Health Department's *net assets* and changes in them. You can think of the Health Department's net assets - the difference between assets and liabilities - as one way to measure the Health Department's financial health, or *financial position*. Over time, *increases or decreases* in the Health Department's net assets are one indicator of whether its *financial health* is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the Health Department's client base and the condition of the Health Department's capital assets, to assess the *overall financial health* of the Health Department.

All of the Health Department's activities are reported as governmental activities, detailed in the statement of net assets and the statement of activities. All of the Health Department's basic services including general services and administration are reported here, as are discretionary Special Programs like Superior Home Nursing and Hospice. Health Department activities are primarily funded by fees for services and state and local sources of funds.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (Continued)**Reporting on the Health Department's General Fund**

All Health Department programs and services are reported in the General Fund. Our analysis of the Health Department's general fund begins on page 21. These financial statements provide detailed information on Health Department's expenditures by reporting unit.

- *Governmental funds* – All of the Health Department's services are reported in a single governmental fund, which details how money flows into and out of the fund, and the balances left at year-end that is available for spending. The report uses an accounting method called *modified accrual* accounting, which measures cash and all other financial assets that can be readily converted into cash. The governmental fund statements provide a detailed *short-term view* of the Health Department's general government operations and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Health Department's programs.

The Health Department as a Whole

Table I provides a summary of the Health Department's net assets as of September 30, 2004 and 2003.

Table 1		
Net Assets		
	<u>Governmental Activities - 2004</u>	<u>Governmental Activities - 2003</u>
Current and other assets	\$1,754,708	\$1,609,392
Capital assets, net	<u>941,570</u>	<u>1,028,449</u>
Total Assets	<u>\$2,696,278</u>	<u>\$2,637,841</u>
Current liabilities	\$ 586,042	\$ 469,410
Noncurrent liabilities	<u>785,816</u>	<u>902,303</u>
Total Liabilities	<u>\$1,371,858</u>	<u>\$1,371,713</u>
Net Assets:		
Invested in capital assets, net of related debt	\$ 449,147	\$ 403,942
Restricted	-	-
Unrestricted	<u>875,273</u>	<u>862,186</u>
Total Net Assets	<u>\$1,324,420</u>	<u>\$1,266,128</u>

Net assets of the Health Department's governmental activities stood at \$1,324,420. *Unrestricted* net assets—the part of net assets that could be used to finance day-to-day activities without constraints established by debt covenants, enabling legislation, or other legal requirements stood at \$875,273.

The results of this year's operations for the Health Department as a whole are reported in the Statement of Activities (see Table 2), which shows the changes in net assets for fiscal year 2004 and revenue and expense in fiscal year 2004 compared to revenue and expense in fiscal 2003.

Western Upper Peninsula District Health Department

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (Continued)

Table 2
Change in Net Assets

	<u>Governmental Activities – 2004</u>	<u>Governmental Activities - 2003</u>
Revenues		
Charges for services	\$4,277,145	\$3,656,175
Projects and Grants	1,026,960	1,012,566
State/Local Public Health Operations	420,039	421,600
Cigarette Tax	<u>30,672</u>	<u>44,014</u>
Total Revenues	<u>5,754,816</u>	<u>5,134,355</u>
Program Expenses		
Salaries and Wages	3,365,527	3,385,266
Fringe Benefits	1,274,533	1,246,007
Supplies	494,384	226,973
Contracted Services	152,623	163,973
Communications	57,568	62,331
Travel and Training	257,047	244,691
Printing and Advertising	52,397	48,108
Insurance	52,680	49,205
Utilities	32,885	31,344
Repairs and Maintenance	71,153	79,651
Leases and Rentals	50,584	50,729
Miscellaneous	36,673	39,089
Capital Outlay	39,271	120,359
Depreciation	94,059	93,204
Interest Expense	<u>42,914</u>	<u>53,726</u>
Total Expenses	<u>6,074,298</u>	<u>5,894,656</u>
Excess (deficiency) before transfers	(319,482)	(760,301)
Transfers	<u>377,774</u>	<u>136,262</u>
Increase (decrease) in net assets	58,292	(624,039)
Net assets, beginning	1,266,128	1,890,167
Net Assets, Ending	<u>\$1,324,420</u>	<u>\$1,266,128</u>

The Health Department's total revenues were \$6,132,590, including local county funding shown as transfers. The total cost of all programs and services was \$6,074,298, leaving an increase in net assets of \$58,292. Our analysis below considers in more detail the operation of the Health Department's programs (in governmental activities) during 2004.

Governmental Activities

To understand the operation of the health department, its programs and services can be seen as falling into one of two broad categories: those basic to local public health departments in Michigan and special programs operated by this health department. The health department's basic public health services are funded by state grants and local funding. Local funding consists of county appropriations, user fees and home health revenue. The health department's special programs include dental services, the RSVP project, senior screening, substance abuse prevention and the Superior Home Nursing and Hospice Division. These programs are largely funded by state and federal grants, and fees for service.

At the start of fiscal 2004, the health department anticipated spending transfers from Superior Home Nursing funds balance to support operations. The initial budget projected a reduction in fund surplus of (\$238,325).

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (Continued)

The health department's management plan for the year, therefore, emphasized reducing costs in both basic services and its largest special program, home nursing. The health department also worked to increase gross revenue and net income in Superior Home Nursing and Hospice.

The health department's public health activities operated under a staff reduction of 2.5 FTE compared to 2003, split between agency administration and program services, while home nursing reduced its staff by 3.8 FTE. As a result, personnel costs ended the year \$185,000 under the initial budget. Agency administrative costs dropped to 16% of total costs. A mid-year supplemental grant of \$40,000 for emergency preparedness, combined with higher fee income for basic services eliminated the need to transfer large sums from the Superior Home Nursing fund balance into public health revenues. This had a large impact on the year's improved asset position. However, the year's most significant events were experienced within the home nursing division.

At the beginning of the year, the home care management team set goals to improve the unit's financial performance and clinical competence. Improving the agency's operational performance was a 2004 imperative, following two years of losses and planned expenditures for capital purchases. By mid-year, however, Superior Home Nursing experienced a 9% decrease in caseload and revenue per client was off 5%, causing a six month loss of (\$160,000). A management work group developed a response plan for the remainder of the year which emphasized decreased staffing, central review of admissions documents for revenue coding and case management efficiency, redesigned staff training and outreach efforts to increase patient caseload.

Results from the second half of the year met the health department's objectives. Caseload climbed from a daily average of 184 in March to 220 in September. For the year, total clients served stood at 553, equal to the number served in 2003. At the same time, staffing costs were reduced through limiting the use of contingent staff and the loss of one management position. The division's costs declined by \$30,000 at year's end.

Regarding revenue, caseload climbed during the second half of the year, and revenue per episode was up by 6%. Additionally, contracting revenue expanded by 8%. Overall, year-end revenues from home nursing were \$260,000 above the mid-year projections. In 2004, Superior Home Nursing was licensed and certified to provide hospice service. This new service added \$39,000 to 2004 revenue.

The division's six month loss of (\$160,000) diminished to a final (\$18,000) loss for the year. By coming to within 1% of breaking even, Superior Home Nursing and Hospice ended its year more profitably than 40% of the country's rural home nursing agencies.

Superior Home Nursing and Hospice has a mission to produce positive income in order to fill a portion of the local funding need for the health department's other programs. In 2004, Superior Home Nursing and Hospice did not add to the health department's overall increase in net assets. However, its revenue accounted for 54% of the health department's gross revenue, and it contributed more than \$500,000 to the health department's overhead costs.

In summary, the health department's operating plan for the year exceeded its objectives. Following the prior year's reduction in net assets, it was important to keep the 2004 reduction in assets to a minimum. It is satisfying to report the year ended with a net increase in assets.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (Continued)

THE HEALTH DEPARTMENT'S FUNDS

As the Health Department completed the year, its governmental funds (as presented in the balance sheet on page 10) reported a fund balance of \$1,168,666 an increase of \$28,684 from the beginning of the year.

As the health department completed the year, its governmental funds (as presented in the balance sheet on page 10) reported a fund balance of \$1,168,666, an increase of \$28,684 from the beginning of the year.

This fund balance is the accumulated operating surplus produced by Superior Home Nursing and Hospice. Its improvement during the fiscal year is a significant change in the funds position projected at the beginning of the year. This positive change is the result of the turnaround in the home nursing division's performance combined with unexpected increased grant funding to basic services and an overall increase in operating efficiency.

At year's end this fund balance was composed of restricted funds totaling \$393,394 and unrestricted funds of \$775,272. The unreserved funds balance equates to 46 days of operating capital, or 13% of total expenses. This meets the minimum acceptable funds position for the agency. By way of comparison, the optimal funds position is 75 days, or 20%.

General Fund Budgetary Highlights

Over the course of the year the Health Department revises the budget, with these adjustments; actual charges to expenditures were \$318,536 more than the final amended budget. Conversely, revenues were \$442,850 more than the final budget projection.

The health department revised its original budget nine months into the year, to account for charges in revenue streams and operations which became evident during the year. The revised budget projected \$65,185 more revenue than the initial budget, accounting for increased grant availability for emergency preparedness. By year end, actual revenues far exceeded both budget projections due primarily to an increase in home health revenue which was not budgeted. The hospice service was not certified until year end, preventing any prediction of its revenue potential, and the increase in episode revenue and contracting fees exceeded earlier conservative projections. Unbudgeted home health revenue amounted to \$118,164.

Similarly, expenses exceeded the final budget by a large amount, \$98,823. Although salaries and benefits slightly exceeded the final budget, both were significantly under the initial budget (by \$147,669 and \$37,082 respectively) due to cost control actions. However, communications travel, and building costs exceeded the budget by a combined \$22,000. These costs rise and fall with the level of client activity in Superior Home Nursing and Hospice, and their increase parallels the home health revenue increase at year's end.

Of particular note to the budget is this: the largest part of the amount that both revenue and expense exceeded their budgets is due to an accounting change during the year, not to operating performance. Specifically, the value of vaccines for children which the health department receives free from the federal vaccine program has never been included in the health department's budgets.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (Continued)

This year the final statements were amended to show \$219,663 in revenues, and an identical amount under supplies expense for the receipt and use of the vaccines. This change explains the largest part of both the revenue and expense variance from budgets.

CAPITAL ASSET AND DEBT ADMINISTRATION**Capital Assets**

At the end of fiscal 2004, the Health Department had \$941,570 invested in a variety of capital assets including land, buildings, and other equipment. (See table 3 below)

Table 3
Capital Assets at Year-End
(Net of Depreciation)

	Governmental Activities – 2004	Governmental Activities – 2003
Land	\$ 90,000	\$ 90,000
Buildings	796,048	855,566
Equipment and furnishings	47,445	72,297
Land improvements	8,077	10,586
Construction in progress	-	-
Totals	<u>\$941,570</u>	<u>\$1,028,449</u>

The capital assets of the health department include buildings in Hancock, Ontonagon, and L'Anse being purchased via installment purchase agreements. A fourth office is in Bessemer in leased space. Building improvements were made to the Ontonagon building, new heating boilers were installed in the Hancock building and major upgrades in the computer infrastructure were accomplished during 2004. There was little other change in capital assets during the year.

Debt

At year-end, the Health Department had \$492,423 in installment purchase agreements as depicted in Table 4 below.

Table 4
Outstanding Debt at Year-End

	Governmental Activities - 2004	Governmental Activities – 2003
Contracts and notes payable	<u>\$492,423</u>	<u>\$624,507</u>
Totals	<u>\$492,423</u>	<u>\$624,507</u>

There were no new additions to debt for this year and further details on long-term debt can be found in Note G.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

The health department's management staff and Board of Health consider multiple factors which may have a bearing on the next year's revenue and costs when setting the new budget. The 2005 budget was challenging because funding for basic services is expected to decline while costs, as always, will rise.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (Continued)

The 2005 budget projects total expenditures of \$6,224,681, a 5% increase over 2004. Revenues, however, have been projected to rise by 3% as an improvement in home care revenue will be partly offset by a decrease of \$120,000 in basic state funding. Local county appropriations remain flat at 2004 levels, providing only 6% of the health department's revenue.

The reality of rising costs during a period of flat or declining state and local funding makes the effective operation of discretionary programs a critical goal for this health department. Superior Home Nursing's mission is to provide its nursing care to every corner of the five counties, and to do so in a manner that fills a significant portion of the local funding need of the health department.

In 2005, Superior Home Nursing's strategic priority is to return to profitability in order to support health department operations to the highest degree.

The initial 2005 budget posits a transfer of \$170,688 from Superior Home Nursing funds balance into public health funding, based on a conservative projection for home nursing performance. The management and board will work, during the year, to maximize the home nursing unit's net income in order to minimize the final loss of fund balance.

CONTACTING THE HEALTH DEPARTMENT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the Health Department's finances and to show the Health Department's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Western Upper Peninsula District Health Department, 540 Depot Street, Hancock, MI 49930.

Western U.P. District Health Dept.
Governmental Funds Balance Sheet / Statement of Net Assets
September 30, 2004

	Balance Sheet	Adjustments	Statement Of Net Assets
ASSETS:			
Cash and cash equivalents:			
Unrestricted	\$ (160,944)	\$ 408,927	\$ 247,983
Restricted	408,927	(408,927)	-
Accounts Receivable:			
Home health	1,122,584	-	1,122,584
Special projects	19,445	-	19,445
Third-party settlement	168,033	-	168,033
Other	98,610	-	98,610
Due from other governmental units	1,334	-	1,334
Deferred expenses	96,719	-	96,719
Capital assets - net	-	941,570	941,570
	<u>1,754,708</u>	<u>941,570</u>	<u>2,696,278</u>
LIABILITIES:			
Accounts payable	123,294	-	123,294
Due to State of Michigan	10,000	-	10,000
Due to others	926	-	926
Accrued salaries and wages	202,146	-	202,146
Deferred revenue	207,065	-	207,065
Long-Term Liabilities			
Accrued compensated absences - due within one year	42,611	88,018	130,629
Accrued compensated absences - due after one year	-	205,375	205,375
Installment purchase agreements - due within one year	-	143,892	143,892
Installment purchase agreements - due after one year	-	348,531	348,531
	<u>586,042</u>	<u>785,816</u>	<u>1,371,858</u>
FUND BALANCE/NET ASSETS:			
Fund balance:			
Reserved			
Employee benefits	293,394	(293,394)	-
Management information systems	50,000	(50,000)	-
Capital improvements	50,000	(50,000)	-
Total reserved fund balance	<u>393,394</u>	<u>(393,394)</u>	<u>-</u>
Unreserved:	<u>775,272</u>	<u>(775,272)</u>	<u>-</u>
	<u>1,168,666</u>	<u>(1,168,666)</u>	<u>-</u>
	<u>1,168,666</u>	<u>(1,168,666)</u>	<u>-</u>
	<u>1,754,708</u>	<u>1,754,708</u>	<u>1,754,708</u>
Net assets:			
Invested in capital assets - net of related debt		449,147	449,147
Unrestricted		875,273	875,273
		<u>\$ 1,324,420</u>	<u>\$ 1,324,420</u>

The Notes to Financial Statements are an integral part of this statement.

Western Upper Peninsula District Health Department
Governmental Fund Statement of Revenues, Expenditures and Changes
in Fund Balance / Statement of Activities
For the year ended September 30, 2004

	General Fund		Statement of
	Modified		Activities
	Accrual Basis	Adjustments	
REVENUES:			
Fees and collections:			
Home health services	\$ 3,374,963	\$ -	\$ 3,374,963
Contractual allowance	(105,315)	-	(105,315)
Other fees, services and refunds	1,007,498	-	1,007,498
Projects and grants	1,026,960	-	1,026,960
State local public health operations	420,039	-	420,039
Cigarette tax	30,672	-	30,672
TOTAL REVENUES	5,754,816	-	5,754,816
EXPENDITURES:			
Salaries and wages	3,365,527	-	3,365,527
Fringe benefits	1,258,936	15,597	1,274,533
Supplies	494,384	-	494,384
Contracted services	152,623	-	152,623
Communications	57,568	-	57,568
Travel and training	257,047	-	257,047
Printing and advertising	52,397	-	52,397
Insurance	52,680	-	52,680
Utilities	32,885	-	32,885
Repairs and maintenance	71,153	-	71,153
Building and equipment lease/rentals	50,584	-	50,584
Miscellaneous	36,673	-	36,673
Capital outlay	46,451	(7,180)	39,271
Depreciation	-	94,059	94,059
Debt service	174,998	(132,084)	42,914
TOTAL EXPENDITURES	6,103,906	(29,608)	6,074,298
EXCESS REVENUES (EXPENDITURES)	(349,090)	29,608	(319,482)
OTHER FINANCING SOURCES (USES)			
Local units:			
Baraga County	50,742	-	50,742
Keweenaw County	17,434	-	17,434
Ontonagon County	50,742	-	50,742
Gogebic County	83,856	-	83,856
Operating transfers from primary government:			
Houghton County	175,000	-	175,000
TOTAL OTHER FINANCING SOURCES (USES)	377,774	-	377,774
EXCESS REVENUES AND OTHER			
FINANCING SOURCES	28,684	29,608	58,292
FUND BALANCE / NET ASSETS, OCTOBER 1	1,139,982	126,146	1,266,128
FUND BALANCE / NET ASSETS, SEPTEMBER 30	\$ 1,168,666	\$ 155,754	\$ 1,324,420

The accompanying notes to financial statements are an integral part of this statement.

WESTERN UPPER PENINSULA DISTRICT HEALTH DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

September 30, 2004

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The Western Upper Peninsula District Health Department (WUPDHD) is a discretely presented component unit of the County of Houghton, Michigan, the purpose of which is to provide mandated public health services and other health services to the residents of Houghton, Ontonagon, Gogebic, Baraga and Keweenaw counties.

The financial statements of the Health Department have been prepared in accordance with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. The more significant of these accounting policies established in GAAP and used by the Health Department are described below.

(1) REPORTING ENTITY

The Health Department's financial statements present the Health Department – component unit. In evaluating the Health Department as a reporting entity, management has addressed all potential component units (traditionally separate reporting units) for which the Health Department may or may not be financially accountable and, as such, be includable within the Health Department's financial statements.

(2) BASIC FINANCIAL STATEMENTS – GOVERNMENT-WIDE FINANCIAL STATEMENTS:

The Health Department's basic financial statement is government-wide (reporting the Health Department as a whole). All the Health Department's operations are classified as governmental activities.

In the government-wide Statement of Net Assets, the governmental columns are presented on a consolidated basis by column and are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The Health Department's net assets are reported in three parts – invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. The Health Department first utilizes restricted resources to finance qualifying activities.

The government-wide Statement of Activities reports both the gross and net cost of the Health Department's functions. The functions are supported by general revenues, (intergovernmental transfers, grants, user fees) and fees for services. The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants. The net costs (by function or business-type activity) are normally covered by general revenue.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

The government-wide focus is more on the sustainability of the Health Department as an entity and the change in the Health Department's net assets resulting from the current year's activities.

BASIC FINANCIAL STATEMENTS – FUND FINANCIAL STATEMENTS:

Governmental Funds:

The focus of the governmental funds' measurement (in the fund statements) is upon determination of financial position (sources, uses, and balances of financial resources) rather than upon net income. The following is a description of the governmental funds of the Health Department:

General Fund - General Fund is the general operating fund and, accordingly, it is used to account for all financial resources except those required to be accounted for in another fund.

The emphasis in fund financial statements is on the major funds in either the governmental or business-type activities categories. Nonmajor funds by category are summarized into a single column. GASB Statement No. 34 sets forth minimum criteria (percentage of the assets, liabilities, revenues or expenditures/expenses of either fund category or the governmental and enterprise combined) for the determination of major funds.

The Health Department reports the following major governmental funds:

The **General Fund** is the Health Department's primary operating fund. It accounts for all financial resources of the Health Department.

(3) BASIS OF ACCOUNTING

Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made regardless of the measurement focus applied.

Accrual

Governmental type activities in the government-wide financial statements are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Modified Accrual

The governmental funds financial statements are presented on the modified accrual basis of accounting. Under the modified basis of accounting, revenues are recorded when they are both measurable and available. "Available" means collectible within the current period or within 60 days of the end of the current fiscal period. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. However, debt service expenditures, compensated absences, and claims and judgments are recorded only when payment is due.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

(4) FINANCIAL STATEMENT AMOUNTS

Budgets and Budgetary Accounting - The Health Department follows these procedures in establishing the budgetary data reflected in the financial statements:

- a. The Health Department Administrator submits to the Health Department's Board of Health proposed operating budget for the fiscal year commencing the following October 1. The operating budget includes proposed expenditures and the means of financing them.
- b. Opportunities exist for public comment during the budget process since all action by the Board of Health occurs in open public hearings.
- c. Pursuant to statute, prior to September 30 of each year the budget for the ensuing year is legally enacted through adoption of the Annual Operating Budget.
- d. The general statute governing Health Department budgetary activity is the State of Michigan Uniform Budgeting and Accounting Act. In addition to the provisions of the said Act and Board policy, general statements concerning the Board's intent regarding the administration of each year's budget are set out in the Annual General Appropriations Act. The Health Department's Board of Health, through policy action, specifically directs the Administrator not to authorize or participate in any expenditure of funds except as authorized by the Annual General Appropriations Act. The Board recognized that, in addition to possible Board sanctions for willful disregard of this policy, State statutes provide for civil liability for violations of the Annual General Appropriations Act.
- e. The Health Department adopts its Annual Budget on a departmental basis. At each level of detail, governmental operations are summarized into expenditure account groups. Funding sources are also identified and adopted at each level of detail. Budgetary control exists at the most detailed level adopted by the Board of Health, i.e., department for analytical purposes. A detailed line item breakdown is prepared for each program. Accounting, i.e., classification control, resides at the line item detail level.

Cash Equivalents and Investments - For the purposes of balance sheet classification and the statement of cash flows, cash and equivalents consist of demand deposits, cash in savings, money market accounts and short-term certificates of deposit with original maturity of three months or less. Investments are carried at fair value.

Capital Assets – Capital assets, which include property, plant, and equipment are reported in the applicable governmental activities columns in the government-wide financial statements. Capital assets are defined by the Health Department as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years.

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are valued at their fair value on the date donated. Depreciation on all exhaustible capital assets is charged as an expense against their operations in government-wide statements. Accumulated depreciation is reported on government-wide statement of net assets. Depreciation has been provided over the estimated useful lives using the straight-line method. The estimated useful lives are as follows:

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Land improvements	20 years
Building, structures and improvements	40 years
Equipment	5-20 years
Water and Sewage System	20 years
Vehicles	5 years
Infrastructure	20-50 years

Long-Term Liabilities: In the government-wide financial statements fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net assets.

Estimates – The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reporting of certain assets, liabilities, revenues, and expenditures. Actual results may differ from estimated amounts.

Compensated Absences – The Health Department accrues accumulated unpaid vacation and sick leave days and associated employee-related costs when earned (or estimated to be earned) by the employee. The noncurrent portion (the amount estimated to be used in subsequent fiscal years) for governmental funds is maintained separately and represents a reconciling item between the fund and government-wide presentations.

Deferred Revenues – Deferred revenues are those where asset recognition criteria have been met, but for which revenue recognition criteria have not been met.

- (1) The Western U.P. District Health Department Component Unit Fund has deferred revenue of \$207,065. This amount represents unearned Medicare revenue.

NOTE B – CASH AND INVESTMENTS:

Cash and Equivalents

The book balance of cash and equivalents as reported on the balance sheet is \$247,983 of which \$229,184 is held with the County Treasurer and pooled with the cash of several other funds. The portion of the \$229,184 book balance insured by the Federal Deposit Insurance Corporation (FDIC) under regulation 330.8 is disclosed in accordance with Governmental Accounting Standards Board Statement #3 in the September 30, 2004 combined annual financial statements for the County of Houghton, Michigan.

The Health Department also has a bank account segregated from the County with a book balance of \$18,799. The bank reported balance was \$45,365, of which \$45,365 was insured by the FDIC under Regulation 330.8. This regulation in summary provides that deposits of a governmental unit are insured for the lesser of the amount of the combined deposit or \$100,000 in every financial institution that is not a branch location that is a member of the FDIC in the following deposit accounts.

1. All demand non-interest bearing accounts in the name of the authorized or statutory custodian of public funds.
2. All savings deposits, which include regular passbook, daily, interest savings and time certificates of deposit in the name of the governmental unit's custodian.

NOTE B – CASH AND INVESTMENTS (Continued):

3. Each bookholder is insured pro-rata for the lesser of the amount on deposit in the debt retirement account or \$100,000. Each separate debt issue or debt series is similarly insured.
4. The demand accounts and savings accounts as defined in items 1 and 2 above for those bank accounts in the name of a specific fund when all of the following criteria are applicable.
 - a. The fund is created by a specific State statute.
 - b. The functions of the fund are specified by State statute.
 - c. Money is allocated by State statute for the exclusive use of that fund and statutory function.

Statutory Authority

Act 196, PA 1997, authorized the Health Department to deposit and invest in:

- a. Bonds, securities, and other direct obligations of the United States or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution eligible to be a depository of funds belonging to the State of Michigan under a law or rule of this state or the United States.
- c. Commercial paper rated at time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
- d. Repurchase agreements consisting of instruments issued by the United States or an agency or instrumentality of the United States.
- e. Bankers' acceptance of United States banks.
- f. Obligations of the State of Michigan or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service.
- g. Mutual funds registered under the Investment Act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.

The Health Department's investments are in accordance with statutory authority.

Michigan law prohibits security in the form of collateral, surety bond, or another form for the deposit of public money.

NOTE C – RESTRICTED CASH:

The Health Department has restricted cash in the amount of \$50,000 for use in major renovation projects or future land and/or building acquisitions; \$50,000 for use in major MIS upgrade projects; \$293,394 for accrued compensated absences and \$15,533 for a Section 125 Cafeteria Plan for a total restricted cash of \$408,927.

NOTE D – ACCOUNTS RECEIVABLE – HOME HEALTH:

The balance of \$1,122,584 for Home Health accounts receivable includes an adjustment related to accounts receivable written off of \$0.

NOTE E – DUE TO STATE OF MICHIGAN:

The State of Michigan has advanced monies to increase the Health Departments cash flow. This amount is payable on demand. At September 30, 2004, advances payable consists of the following:

Substance Abuse Services	<u>\$10,000</u>
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NOTE F – COMPENSATED ABSENCES:

The Health Department accrues a liability for earned sick leave based on the vesting method. The liability is accrued as the benefits are earned if it is probable that the Health Department will compensate the employees conditioned upon death or retirement. Upon death or retirement, the employee or their estate shall be paid for sick leave accumulated at their current rate of pay under the terms established by the respective labor agreement or administrative policy.

Employees earn annual leave or earned time off at varying rates based upon years of service. Upon retirement, death or termination of employment, employees or their estates are paid for outstanding annual leave or earned time off at their current rate of pay according to the terms established by the respective labor agreement or administrative policy.

The accrued compensated absences balance of \$42,611 as reported in the general operating fund and \$88,018 in the adjustment column represents the current portion of the liability while the balance of \$205,375 as reported under the long-term caption in the Statement of Net Assets represents the long-term portion of the liability.

NOTE G – LOAN AND LEASE COMMITMENTS:

Commitments under lease agreements and loans for facilities and equipment provide for annual payments as follows:

On December 26, 1991, the Health Department entered into an installment purchase agreement payable over 178 months for the acquisition of the Hancock facility. The agreement, effective December 1, 1991, requires monthly payments of \$11,354, which includes interest at a rate of 9%.

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$119,582	\$16,660	\$136,242
2006	119,447	5,442	124,889
TOTAL	<u>\$239,029</u>	<u>\$22,102</u>	<u>\$261,131</u>

On October 27, 1993, the Health Department entered into a 15-year installment purchase agreement for the acquisition of property and a building in Ontonagon. The agreement, effective November 1, 1993, requires monthly payments of \$867, which includes interest, a rate of 8.5%. In March of 2000, the agreement was amended to monthly payments of \$892, which includes interest at a rate of 9%.

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$7,847	\$2,866	\$10,713
2006	8,583	2,130	10,713
2007	9,388	1,325	10,713
2008	9,568	444	10,012
TOTAL	<u>\$35,386</u>	<u>\$6,765</u>	<u>\$42,151</u>

On September 29, 2000, the Health Department entered into a 15 year land contract with BHK Child Development Board and the Copper Country Intermediate School District for the shared use of a building in L'Anse. The agreement, effective January 1, 2000, requires monthly payments of \$2,337, which includes interest at a rate of 5.5%.

NOTE G – LOAN AND LEASE COMMITMENTS (Continued):

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 16,463	\$11,579	\$ 28,042
2006	17,391	10,651	28,042
2007	18,373	9,669	28,042
2008	19,408	8,634	28,042
2009	20,504	7,538	28,042
Thereafter	<u>125,869</u>	<u>19,015</u>	<u>144,884</u>
TOTAL	<u>\$218,008</u>	<u>\$67,086</u>	<u>\$285,094</u>

Annual maturities on the Long-Term Debt are as follows:

2005	\$143,892
2006	145,421
2007	27,761
2008	28,976
2009	20,504
Thereafter	<u>125,869</u>
TOTAL	<u>\$492,423</u>

Changes in long-term debt for the year ended September 30, 2004 are summarized as follows:

	<u>Balance</u> <u>10-01-03</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>09-30-04</u>
Installment Purchase Agreement – Hancock Facility	\$ 348,355	\$ -	\$109,326	\$239,029
Installment Purchase Agreement – Ontonagon Facility	42,560	-	7,174	35,386
Installment Purchase Agreement – L'Anse Facility	233,592	-	15,584	218,008
Compensated Absences	<u>277,796</u>	<u>15,597</u>	<u>-</u>	<u>293,393</u>
	<u>\$902,303</u>	<u>\$15,597</u>	<u>\$132,084</u>	<u>\$785,816</u>

NOTE H – RESERVED FUND BALANCE:

The Capital Improvements balance of \$50,000 is for future renovation of existing buildings or purchase of land and/or buildings.

The MIS Improvements balance of \$50,000 is for future renovation of the Management Information System.

NOTE I – NET HOME HEALTH SERVICE REVENUE:

Net home health service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors Blue Cross/Blue Shield. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods, as final settlements are determined. The agency reports such activity through the submission of its annual cost reports which are subject to audit by the Medicare fiscal intermediary.

NOTE J – DEFINED BENEFIT PENSION PLAN:

Plan Description - The Health Department participates in the Michigan Municipal Employees Retirement System, an agent multiple-employer defined benefit pension plan that covers all employees of the Health Department. The System provides retirement, disability and death benefits to plan members and their beneficiaries. The Michigan Municipal Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to MERS.

NOTE J – DEFINED BENEFIT PENSION PLAN (Continued):

Funding Policy - The obligation to contribute to and maintain the system for these employees was established by negotiation with the Health Department's competitive bargaining units, and requires a contribution from the employees of 0% of gross wages.

Annual Pension Cost - For the year ended September 30, 2004, the Health Department's annual pension cost of \$244,908 for the plan was equal to the Health Department's required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2003, using the entry actual age cost method. Significant actuarial assumptions used include (a) an 8.0 investment rate of return, and (b) projected salary increases of 4.5 percent per year and (c) a percentage based on an age-related scale to reflect merit, longevity and promotional salary increases. Both (a) and (b) include an inflation component of 4.5%. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period is 30 years.

Three Year Trend Information from Actuarial Valuation
Fiscal Year Ended September 30

	2001	2002	2003
Annual Pension Cost	\$245,189	\$234,061	\$218,160
Percentage of APC Contributed	100%	100%	100%
Net Pension Obligation	0	0	0
Actuarial Value of Assets	5,403,274	5,587,356	6,014,110
Actuarial Accrued Liability (Entry Age)	5,688,857	6,092,779	6,930,189
Unfunded AAL	285,583	505,423	916,079
Funded Ratio	95%	92%	87%
Covered Payroll	2,914,852	2,975,938	3,370,346
UAAL as a Percentage of Covered Payroll	10%	17%	27%

NOTE K – CONTINGENT LIABILITIES:

Risk Management - The Health Department is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees' and natural disasters. The Health Department was unable to obtain general liability insurance at a cost it considered to be economically justifiable. The Health Department joined together with other governments as part of a public entity risk pool currently operating as a common risk management and insurance program. The Health Department pays an annual premium to the pool for its general insurance coverage. The agreement provides that the pool will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of \$75,000 for each insured event.

The Health Department continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

The pooling agreement allows for the pool to make additional assessments to make the pool self-sustaining. The Health Department is unable to provide an estimate of the amounts of additional assessments that may be required to make the pool self-sustaining.

NOTE L – DEFERRED COMPENSATION PLAN:

The Health Department offers its employees deferred compensation plans created in accordance with the Internal Revenue Code, Section 457. The Plans are available to all employees who work at least 20 hours per week. The Plan is not available to on-call employees. The plans permit them to defer a portion of their current earnings until the employee's termination, retirement, death or unforeseeable future.

NOTE L – DEFERRED COMPENSATION PLAN (Continued):

Due to changes in the Internal Revenue Code, the Plan's assets are considered to be property of the Plan's participants and are no longer subject to the health Department's general creditors. Therefore, the plan is no longer presented in these statements.

The Plan's participants have the right to designate how the funds will be invested. Accordingly, the Health Department has no liability for losses under the Plan. The Plan's assets are held in trust for the exclusive benefit of the Plan's participants and their beneficiaries.

The Health Department's plan is administered by Nationwide Retirement Solutions, and as Plan administrators, agree to hold harmless and indemnify the Board, its appointed and elected officers and participating employees from any loss resulting from Nationwide Retirement Solutions or their agents' failure to perform their duties and services pursuant to the Nationwide Retirement Solutions program.

NOTE M – EXCESS EXPENDITURES OVER APPROPRIATIONS:

Public Act 621 provides that the Health Department shall not incur expenditures in excess of amounts appropriated. The following fund had expenditures over appropriations for the year ended September 30, 2004:

General Operating Fund	<u>\$318,536</u>
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NOTE N – CAPITAL ASSETS:

Capital asset activity of the Health Department for the current year was as follows:

	Beginning Balances 10/01/03	Additions	Deletions	Ending Balances 9/30/04
Land	\$90,000	\$ -	\$ -	\$90,000
Land Improvements	17,595	-	-	17,595
Buildings	1,443,780	-	-	1,443,780
Equipment	<u>159,887</u>	<u>7,180</u>	-	<u>167,067</u>
	<u>1,711,262</u>	<u>7,180</u>	-	<u>1,718,442</u>
Less Accumulated Depreciation:				
Land Improvements	7,009	2,509	-	9,518
Buildings	588,214	59,518	-	647,732
Equipment	<u>87,590</u>	<u>32,032</u>	-	<u>119,622</u>
	<u>682,813</u>	<u>94,059</u>	-	<u>776,872</u>
Total	<u>\$1,028,449</u>	<u>(\$86,879)</u>	<u>\$ -</u>	<u>\$941,570</u>

Required Supplemental Information

Western Upper Peninsula District Health Department
Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual
For the year ended September 30, 2004

	Original Budget	Final Amended Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES:				
Fees and collections:				
Home health services	\$ 3,128,960	\$ 2,969,094	\$ 3,374,963	\$ 405,869
Contractual allowance	-	-	(105,315)	(105,315)
Other fees, services and refunds	697,050	839,626	1,007,498	167,872
Projects and grants	956,133	1,060,853	1,026,960	(33,893)
State local public health operations	420,624	420,624	420,039	(585)
Cigarette tax	44,014	21,769	30,672	8,903
TOTAL REVENUES	<u>5,246,781</u>	<u>5,311,966</u>	<u>5,754,816</u>	<u>442,850</u>
EXPENDITURES:				
Salaries and wages	3,513,196	3,349,380	3,365,527	(16,147)
Fringe benefits	1,296,018	1,217,122	1,258,936	(41,814)
Supplies	231,840	245,062	494,384	(249,322)
Contracted services	88,700	153,238	152,623	615
Communications	54,500	52,285	57,568	(5,283)
Travel and training	230,575	250,697	257,047	(6,350)
Printing and advertising	52,565	52,840	52,397	443
Insurance	49,530	53,186	52,680	506
Utilities	30,000	35,000	32,885	2,115
Repairs and maintenance	68,025	64,992	71,153	(6,161)
Building and equipment lease/rentals	50,660	49,350	50,584	(1,234)
Miscellaneous	34,050	33,661	36,673	(3,012)
Capital outlay	9,990	53,557	46,451	7,106
Debt service	175,000	175,000	174,998	2
TOTAL EXPENDITURES	<u>5,884,649</u>	<u>5,785,370</u>	<u>6,103,906</u>	<u>(318,536)</u>
EXCESS REVENUES (EXPENDITURES)	(637,868)	(473,404)	(349,090)	124,314
OTHER FINANCING SOURCES (USES)				
Local units:				
Baraga County	51,940	50,742	50,742	-
Keweenaw County	19,977	17,434	17,434	-
Ontonagon County	51,940	50,742	50,742	-
Gogebic County	83,904	83,856	83,856	-
Operating transfers from primary government:				
Houghton County	191,782	175,000	175,000	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>399,543</u>	<u>377,774</u>	<u>377,774</u>	<u>-</u>
EXCESS REVENUES AND OTHER FINANCING SOURCES	<u>(238,325)</u>	<u>(95,630)</u>	<u>28,684</u>	<u>124,314</u>
FUND BALANCE, October 1	<u>1,139,982</u>	<u>1,139,982</u>	<u>1,139,982</u>	<u>-</u>
FUND BALANCE, SEPTEMBER 30	<u>\$ 901,657</u>	<u>\$ 1,044,352</u>	<u>\$ 1,168,666</u>	<u>\$ 124,314</u>

Additional Information

Western Upper Peninsula District Health Department
Schedule of Expenditures by Reporting Unit
For the Year ended September 30, 2004

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Agency Support	\$ 1,367,480	\$ 1,604,244	\$ (236,764)
AIDS	7,013	7,084	(71)
BCCCP	49,194	47,465	1,729
Bioterrorism Emergency Prep	209,522	217,674	(8,152)
CSHCS	20,956	20,918	38
Dental	79,656	81,032	(1,376)
Environmental Health	546,651	536,354	10,297
Family Planning	158,379	169,160	(10,781)
Hearing & Vision	59,507	57,122	2,385
ISS	-	59,655	(59,655)
Local Tobacco Reduction	37,436	39,562	(2,126)
MSS	178,972	124,117	54,855
Pie Grant	8,660	6,783	1,877
RSVP Project	63,769	63,923	(154)
Senior Screening	17,035	21,017	(3,982)
Superior Home Nursing	2,720,597	2,783,650	(63,053)
Substance Abuse	89,312	88,058	1,254
WIC	171,231	176,088	(4,857)
TOTALS	<u>\$ 5,785,370</u>	<u>\$ 6,103,906</u>	<u>\$ (318,536)</u>

Western Upper Peninsula District Health Department
Schedule of Departmental Expenditures
For the Year ended September 30, 2004

	Total	Agency Support	AIDS	BCCCP	Bioterrorism Emergency Prep	CSHCS	Dental	Environmental Health
Salaries and wages	\$ 3,365,527	\$ 735,768	\$ 3,795	\$ 26,076	\$ 124,119	\$ 13,484	\$ 32,493	\$ 326,750
Fringe benefits	1,258,936	290,685	2,958	11,386	48,562	4,333	12,366	127,104
Supplies	494,384	313,708	331	2,997	1,493	945	3,133	9,610
Contractual Services	152,623	22,888	-	162	-	-	29,693	1,002
Communications	57,568	14,146	-	526	2,891	213	253	5,587
Travel and training	257,047	13,202	-	647	1,226	153	710	31,457
Printing and advertising	52,397	9,542	-	545	4	-	560	5,023
Insurance	52,680	52,225	-	-	-	-	-	-
Utilities	32,885	9,504	-	520	610	159	159	2,935
Repairs and maintenance	71,153	32,021	-	688	1,185	269	269	3,595
Building and equipment lease/rental	50,584	13,766	-	526	2,212	-	-	6,213
Miscellaneous	36,673	21,841	-	830	138	-	34	438
Capital outlay	46,451	10,209	-	-	32,972	-	-	1,618
Depreciation	-	-	-	-	-	-	-	-
Debt service	174,998	64,739	-	2,562	2,262	1,362	1,362	15,022
TOTALS	\$ 6,103,906	\$ 1,604,244	\$ 7,084	\$ 47,465	\$ 217,674	\$ 20,918	\$ 81,032	\$ 536,354

Western Upper Peninsula District Health Department
Schedule of Departmental Expenditures
For the Year ended September 30, 2004

	Family Planning	Hearing & Vision	ISS	Local Tobacco Reduction	MSS	Pie Grant	RSVP Project
Salaries and wages	\$ 63,203	\$ 29,874	\$ 43,035	\$ 22,852	\$ 71,281	\$ 5,232	\$ 34,299
Fringe benefits	21,737	17,726	13,100	8,334	30,792	1,109	11,985
Supplies	34,074	2,329	512	125	914	18	8,982
Contractual Services	28,800	-	138	-	1,388	-	146
Communications	1,838	616	-	388	2,163	-	45
Travel and training	1,442	2,194	2,689	985	3,221	424	6,181
Printing and advertising	806	-	-	3,496	-	-	320
Insurance	-	-	-	-	-	-	455
Utilities	1,806	433	-	291	1,587	-	-
Repairs and maintenance	2,713	949	84	492	1,803	-	-
Building and equipment lease/rental	3,786	-	-	-	3,993	-	-
Miscellaneous	497	-	97	106	34	-	1,476
Capital outlay	-	-	-	-	-	-	34
Depreciation	-	-	-	-	-	-	-
Debt service	8,458	3,001	-	2,493	6,941	-	-
TOTALS	\$ 169,160	\$ 57,122	\$ 59,655	\$ 39,562	\$ 124,117	\$ 6,783	\$ 63,923

Western Upper Peninsula District Health Department
Schedule of Departmental Expenditures
For the Year ended September 30, 2004

	Senior Screening	Superior Home Nursing	Substance Abuse	WIC
Salaries and wages	\$ 10,529	\$ 1,671,170	\$ 47,637	\$ 103,930
Fringe benefits	6,691	586,350	23,169	40,549
Supplies	3,424	103,978	778	7,033
Contractual Services	-	67,806	600	-
Communications	-	25,665	944	2,293
Travel and training	328	182,454	6,901	2,833
Printing and advertising	45	31,358	207	491
Insurance	-	-	-	-
Utilities	-	11,775	919	2,187
Repairs and maintenance	-	23,011	1,084	2,990
Building and equipment lease/rental	-	14,371	1,578	4,139
Miscellaneous	-	10,524	72	586
Capital outlay	-	1,618	-	-
Depreciation	-	-	-	-
Debt service	-	53,570	4,169	9,057
TOTALS	<u>\$ 21,017</u>	<u>\$ 2,783,650</u>	<u>\$ 88,058</u>	<u>\$ 176,088</u>

Compliance Supplements



ANDERSON, TACKMAN & COMPANY, P.L.C.

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KINROSS
MARQUETTE

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GREEN BAY
MILWAUKEE

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Health
Western Upper Peninsula District Health Department
Hancock, Michigan 49930

We have audited the financial statements of the Western Upper Peninsula District Health Department, a component unit of the County of Houghton, Michigan, as of and for the year ended September 30, 2004, and have issued our report thereon dated January 14, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Western Upper Peninsula District Health Department's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk of material misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Western Upper Peninsula District Health Department's component unit financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. These instances are described in a separate letter to management of the Western Upper Peninsula District Health Department dated January 14, 2005.

This report is intended solely for the information and use of management, state and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Anderson, Tackman & Company, PLLC
Certified Public Accountants

January 14, 2005



ANDERSON, TACKMAN & COMPANY, P.L.C.

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Western Upper Peninsula District Health Department
Report to Management Letter
For the Year Ended September 30, 2004

To the Board of Health
Western Upper Peninsula District Health Department
540 Depot Street
Hancock, MI. 49930

In planning and performing our audit of the financial statements of the Western Upper Peninsula District Health Department, for the year ended September 30, 2004, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control. However, we noted no certain matters involving the internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control that, in our judgment, could adversely affect Western Upper Peninsula District Health Department's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily disclose all matters that might be reportable conditions. In addition, because of inherent limitations in internal control, errors or fraud may occur and not be detected by such controls.

These conditions were considered in determining the nature, timing, and extent of the audit tests applied in our audit of the September 30, 2004 financial statements, and this report does not affect our report on those financial statements dated January 14, 2005. We have not considered the internal control since the date of our report.

Instances of Non-Compliance

The State of Michigan has enacted Public Act 621, the Uniform Budgeting and Accounting Act, to provide for a system of uniform procedures for the preparation and execution of budgets in local units of government. The main purpose of P.A. 621 was to require that all local units of government adopt balanced to establish responsibilities and define the procedure for the preparation, adoption, and maintenance of the budget, and to require certain information for the budget process, including data for capital construction projects. The major provisions of P.A. 621 are as follows:

To the Board of Health
Western Upper Peninsula District Health Department

1. Local units of government must adopt a budget.
2. The budget, including accrued deficits and available unappropriated surpluses, must be balanced.
3. The budget must be amended when necessary.
4. Debt shall not be entered into unless the debt is permitted by law.
5. Expenditures shall not be incurred in excess of the amount appropriated.
6. Expenditures shall not be made unless authorized in the budget.
7. Violations of the act, disclosed in an audit of the financial records, in the absence of reasonable procedure shall be filed with the State Treasurer and reported to the Attorney General.

For the year ended September 30, 2004, the Western Upper Peninsula District Health Department generally conformed to the act except for expenditures exceeded budget levels in certain categories for which budgets were adopted as listed in the footnotes of the financial report. We remind the Board of the provisions of P.A. 621 and recommend in the future, practices be refined and more closely monitored to conform to the Act.

* * * * *

Our comments and recommendations are submitted as constructive suggestions to assist you in strengthening internal controls and your overall operations. We appreciate the cooperation and courtesy extended to us by the Health Department's staff during our audit and would be pleased to discuss our recommendations with you further at your convenience.

This report is intended solely for the information and use of the Board of Health of the Western Upper Peninsula District Health Department, management, state and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Anderson, Tackman & Company, PLLC
Certified Public Accountants

January 14, 2005